Singapore International Energy Week (SIEW) October 27-31 2014

ASIA-PACIFIC: COMMODITY AND PRICE BENCHMARK TRENDS

SIEW 2014: Interview with Platts President Larry Neal

Founded in 1909, Platts is a leading global provider of energy, petrochemicals, metals and agriculture information and a division of McGraw Hill Financial. Platts is a top independent source of benchmark price references.

There's been much talk about the impact of slowing demand from China on the world's commodity markets. What role do you see China & the rest of Asia playing going forward?

Neal: China's economic growth over the last decade was heavily reliant on fixed asset investment. As a result, commodity prices rose as China's growth created a new source of global demand.

The current Chinese administration is rebalancing the economy away from reliance on investment as the key growth driver. This has affected demand for commodities like iron ore, which experienced a 40% drop in price from January to mid-October, as reflected in the Platts Iron Ore Index (IODEX) 62% Fe iron ore price assessment. Energy markets also showed the effects of slower Chinese growth, with the Platts Dated Brent crude oil benchmark dropping 20% in the first 6 months of this year.

China's slowdown aside, over the longer term growth in economic and commodities markets is expected to continue from not only China but also India, South East Asia and the Middle East, supported by rapid urbanization and a fast-growing population of middle income consumers. Price regulation, trade protectionism and fuel subsidies are being abandoned in favor of open market forces as the means to balance supply and demand.

What role are Asian benchmarks playing in the global commodity markets?

Neal: With China and Asia as key drivers to the world economy, Asian commodity benchmarks are in the spotlight. A wealth of key energy benchmarks – including Platts Dubai (the world's pre-eminent price benchmark for heavy, sour crude oil) and Platts JKM™ (Japan Korea Marker, the spot market price of liquefied natural gas, or LNG, delivered to Japan and Korea) – are assessed from Platts' Singapore office.

Asia dominates the iron ore markets, with the vast majority of physical iron ore being priced off Platts' IODEX. Virtually all iron ore derivatives are traded on two Asian exchanges in China and Singapore, with derivatives traded on the Singapore Exchange settling against Platts' other iron ore index, The Steel Index (TSI). Both indices are assessed from Platts' Singapore office.

Larry Neal became President of Platts in 2009 and has shepherded a doubling in Platts' financial size and overseen growth in staff to more than 1,000. **Bio:** http://www.platts.com/leadership/LarryNeal

Singapore has long been Asia's commodities hub but is facing competition from other countries. What does the landscape look like?

Neal: Price benchmarking has been competitive in Asia for decades, and while the competition Singapore faces today has unique characteristics, it is not so different to the competition that Singapore faced, against even longer odds, since the 1970s. Today, not only does Singapore remain Asia's hub for trading a range of commodities from oil to coal, but it also is the largest bunkering center in the world, where tankers, container ships and bulk vessels fill up on oil.

Other countries are eager to replicate Singapore's success. Shanghai, for example, has launched the Shanghai Free Trade Zone, the first free-trade zone in mainland China, which will allow free convertibility of the Yuan and could prove to be a spearhead towards developing China as a commodities trading center. As a global information provider, Platts is naturally always open to new ideas and solutions, and doesn't pick sides in the battle for hub status. The markets have shown themselves to be very efficient at identifying hubs and promoting them to benchmark status – all of which means Singapore will of course need to keep working hard to keep the competitive edge that it has honed for many years.

Platts has and continues to invest in Singapore, one of our company's main hubs, along with London and Houston. Our Singapore oil team is now one of the largest dedicated oil teams in the world with an enviable expertise cemented with local talent.

What does the recent decline in trading volumes mean for Asian energy markets?

Neal: Some energy derivatives contracts volumes have declined as much as a 20% year over year. But, interestingly, most of that decline has been in the West. In Asia have we observed a steady growth in market activity with Asian buyers actively involved in Platts' Asia price assessment processes as top market participants. Platts' Dubai crude, Singapore gasoline and diesel have seen record trade volumes this year and we've also seen growth in several key energy paper contracts too. That speaks to broader trends we've witnessed in markets in recent years.

As a shale oil revolution has made the U.S. less world-reliant for energy, Asia has risen to key market-driver status. Which country is the world's largest importer of gasoline? It's Indonesia. Indonesia is also the largest thermal coal exporter in the world with China and India the top two importers.

Where is the key global LNG price point today? It's Japan and Korea. Our Platts JKM™ is the global reference point for LNG and it's resolutely "made in Asia." And in iron ore, the flow between Australia and China is the backbone of our IODEX and TSI benchmarks. Meanwhile in the coal market, the Indonesian government uses the Platts Indonesia thermal coal index to determine mining taxes, while the Indian government also uses Platts thermal coal assessments to calculate electricity tariffs.

What you're really seeing in the commodity markets today is a rebalancing not just of trade flows, but of the weight of trade hubs and the price discovery associated with those hubs. This is something we take very seriously and something we've spent a lot of time investing in and thinking around. What's ahead? An expansion of the global relevance of the Asian markets.

What trends are you seeing in some of the developing commodity markets outside of oil?

Neal: Platts is a sought-after go-to source for price discovery in evolving markets and a solution finder to industry pricing challenges. In this role, we've observed that certain commodities move along the path of market evolution much faster than others. Alumina, used to make aluminum, and iron ore, a key feedstock in steel-making, are good examples.

In 2010, we launched the world's first daily price assessment for alumina, in quick response to the Australian suppliers and their Chinese buyers moving from annual contracts to short-term, open-market pricing. The market adopted it not only for pricing alumina cargoes, but also to settle derivatives contracts.

In June 2008, Platts was the first independent source of daily seaborne iron ore price assessments, and our 62% Fe grade assessment quickly became the spot price benchmark used to settle physical contracts as the market moved swiftly from fixed-price annual contracts, to contracts linked to the price of spot iron ore. The evolution of iron ore derivatives followed, and today the Platts TSI brand, which we acquired with the Steel Business Briefing Group (SBB) in mid-2011, provides the market with a reliable and transparent iron ore benchmark which is used widely in the derivatives market.

What is the outlook for the development of the LNG market in Asia?

Neal: The LNG market is poised to see significant shifts in the coming years, as more than 100 million metric tons per year of additional production is slated to come online between now and 2017 from Australia and the U.S. alone.

With the rise of the U.S. as a major supplier, comes a new and more flexible way of selling LNG. Responding to the strong pushback against traditional indexation to crude oil, the U.S. sellers are offering an alternative point for indexation, the removal of take-or-pay clauses and non-destination restricted cargoes that had been inherent in term contracts sold to Asian buyers. This tolling model will likely give rise to more spot trading.

Already we see close to 20 industry players with ambitions to sell in Asia setting up trading operations in Singapore, with more expected to follow. As such, Singapore could be on path to overtake London as the nexus for LNG spot trading, as more flexible cargoes become available on this side of the Suez Canal.

Platts at a Glance

Platts Top 250 Global Energy Company Rankings®, in its 13th year, is a financial ranking of publically-traded companies with $U.S. 5billion+ assets. Data is compiled by S&P Capital IQ. Platts began hosting its Top 250 Asia Awards dinner in Singapore in 2006.

Platts and Singapore International Energy Week (SIEW) began partnership in 2009, with Platts' Top 250 and Asia awards dinner topping the week's proceedings, a pattern now entrenched.

Asia-Pacific offices: Singapore, Beijing, Shanghai, Hong Kong, Tokyo, and Melbourne.

Largest Asia-Pacific office: Singapore, with staff, largely local, of 155.

Asia-Pacific-based price benchmarks that Platts is best known for:

- **Crude Oil:** Platts Dubai
- **Gasoline, Gasoil, Jet Fuel and Fuel Oil:** Mean of Platts Singapore, Mean of Platts Arab Gulf
- **Naphtha:** Mean of Platts Japan
- **Shipping:** Platts TC4 and TC5
- **Petrochemicals:** Platts Global Petrochemical Index (and its 7 component indexes)
- **Liquefied Natural Gas-LNG:** Platts JKM™--Platts Japan Korea Marker
- **Iron Ore:** Platts Iron Ore Index (IODEX) CFR China 62% Fe iron ore, The Steel Index (TSI) CFR China 62% Fe
- **Thermal Coal:** Platts FOB Kalimantan 5,900 GAR, China Coal Index 1 (FOB QHD 5,500 NAR)
- **Coking Coal:** Platts Premium Low Vol FOB Australia

Business in Asia-Pacific: More than doubled over the past five years. Platts is committed to serving the information needs of the energy and metals markets in the region. Platts continues to invest in the region and staffing has more than doubled.

Founded in 1909, Platts' initial deep-dive was energy and later: petrochemicals, metals and agriculture. With 2011 acquisition of The Steel Business Briefing Group and The Steel Index (TSI), Platts became a leading global information and independent benchmark provider in metals.

In 2012, entered agriculture: Via its acquisition of Kingsman SA, a Switzerland-based sugar specialist company. Beyond sugar, Platts expanded market coverage into grains, crops used for ethanol, biofuels.

Since 2012, has covered biomass: In 2014 launched coverage of wood pellets, as a fuel source.

As the world's first daily physical market spot price assessment – launched in February 2009 — the Platts JKM has already been widely adopted by the LNG market as both a key reference point and the only fully hedgable mechanism available for LNG spot trading.